

ORIGINAL

# OPEN MEETING



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## MEMORANDUM

Arizona Corporation Commission  
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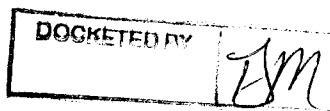
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TO: THE COMMISSION

FROM: Utilities Division

DATE: July 2, 2012

JUL 02 2012



DOCKET CONTROL

RE: IN THE MATTER OF THE APPLICATION OF CITIZENS UTILITIES RURAL COMPANY, INC. TARIFF FILING TO INTRODUCE IDENTIFICATION AND RATING OF VOIP-PSTN TRAFFIC (DOCKET NO. T-01954B-11-0452)

On December 15, 2011, Citizens Utilities Rural Company, Inc. d/b/a Frontier Citizens Utilities Rural ("Frontier Rural") filed tariff revisions to introduce its Identification and Rating of VoIP-PSTN Traffic tariff. Voice over Internet Protocol ("VoIP") is a technology that allows a subscriber to make and receive voice calls using a broadband Internet connection instead of a phone line. On May 10, 2012, Frontier Rural amended the filing to clarify the application of interstate and intrastate access rates and to clarify that the Percent VoIP Usage ("PVU") factor applies only to intrastate traffic.

On November 18, 2011, the Federal Communications Commission ("FCC") issued a Report and Order and Further Notice of Proposed Rulemaking in WC Docket Nos. 10-90, et al. (FCC 11-161) ("the USF-ICC Order") that puts in place a process that will change the current process by which carriers pay for the use of each other's facilities and network. The FCC's name for this process is "intercarrier compensation." As a result of the USF-ICC Order, carriers are filing revisions to their access tariffs to conform to the provisions of the Order. Specifically, carriers are addressing access charges imposed on VoIP-PSTN<sup>1</sup> traffic.

The FCC adopted the following intercarrier compensation framework for VoIP traffic, in particular, VoIP-PSTN traffic<sup>2</sup>:

*Voice over Internet Protocol (VoIP):* The intercarrier compensation treatment of VoIP traffic that is exchanged between LECs and other carriers has been the subject of long-running disputes. This plan does not take a position on the appropriate intercarrier compensation treatment of VoIP traffic prior to January 1, 2012. Under the plan, the Commission will adopt a new rule, effective January 1, 2012, to govern the intercarrier compensation rates applicable to VoIP traffic exchanged between LECs and other carriers. Such traffic will be rated at interstate access rates if the call detail indicates an "access" call, or at reciprocal compensation rates if the call detail indicates a "non-access" call. *All "toll" traffic that originates in IP or terminates in IP will be subject to current interstate access rates (regardless of whether it is interstate or intrastate) (Italics and underlining added.);* local termination rates would not be affected. All such traffic is

<sup>1</sup> VoIP-PSTN traffic is intrastate VoIP calling that utilizes the Public Switched Telephone Network.

<sup>2</sup> The USF-ICC Order at para. 933, footnote 1869.

incorporated into the overall transition as rates for terminating interstate access traffic are reduced and eventually unified at \$0.0007 pursuant to the comprehensive reform plan described below. *Under the plan, intrastate access rates will not be applied to VoIP traffic. (Italics added.)*

The USF-ICC Order also makes clear that on a going-forward basis payment obligations apply to VoIP traffic and adopts a transitional intercarrier compensation framework for VoIP.<sup>3</sup> Under the transitional framework<sup>4</sup>:

- Default charges for “toll” VoIP-PSTN traffic will be equal to interstate access rates applicable to non-VoIP traffic, both in terms of the rate level and rate structure;
- Default charges for other VoIP-PSTN traffic will be the otherwise-applicable reciprocal compensation rates; (footnote omitted); and
- LECs are permitted to tariff these default charges for toll VoIP-PSTN traffic in relevant federal and state tariffs in the absence of an agreement for different intercarrier compensation.

Based on the above language and Staff’s interpretation of the USF-ICC Order, Staff believes that interstate access rates are applicable to both originating and terminating VoIP-PSTN traffic.

Frontier Communications Corp. (“Frontier”), the parent of Frontier Rural, filed a Petition for Clarification and/or Reconsideration (“Petition”) at the FCC to clarify, or reconsider its decision to state that initially the interstate access charges for VoIP-PSTN calls will apply only for the termination of such calls and intrastate charges will apply for the origination of such calls.

On January 31, 2012, Verizon filed objections to Frontier Rural’s proposed tariff revisions. Verizon requests that the Commission require Frontier Rural to revise and refile its proposed tariffs to reflect application of interstate switched access rates to all PSTN-VoIP traffic, including PSTN-originating/VoIP-terminating traffic.

On March 21, 2012, AT&T Services, Inc. (“AT&T”) filed objections to Frontier Rural’s proposed tariff revisions. AT&T requests that the Commission require Frontier Rural to amend the proposed tariff to apply interstate rates to both IP-originating and IP-terminating traffic (including traffic that originates or terminates in the company’s own network IP format), calculate the PVU factor based solely on intrastate minutes of use, and to apply the rates retroactively to December 29, 2011.

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<sup>3</sup> The USF-ICC Order at para. 652.

<sup>4</sup> The USF-ICC Order at para. 944.

On April 24, 2012, the FCC issued an Order<sup>5</sup> addressing Frontier's petition, stating "it would permit LECs to tariff default rates equal to their intrastate originating access rates when they originate VoIP traffic from the effective date<sup>6</sup> of the revised rules until June 30, 2014. On July 1, 2014, LECs will be permitted to tariff default rates for such traffic equal to their interstate originating access rates."<sup>7</sup>

During its review of numerous proposed tariff revisions to implement the FCC's decision as it relates to VoIP-PSTN calls, Staff was informed by AT&T and others that they believed that because the FCC's Order regarding these calls became effective on December 29, 2011, the new rates should apply to traffic beginning on that date and that there should be a rate adjustment. The Commission's tariff approval procedures apply meaning the tariffs become effective only after Commission approval.

Staff has reviewed the proposed tariff revisions, the relevant FCC Orders and the comments that have been filed in the Docket. Staff recommends approval of Frontier Rural's proposed tariff revisions, as amended, with the requirement that Frontier Rural revise its proposed tariff to include a mechanism to address VoIP-PSTN traffic that its customers originate or terminate in IP format, even if that traffic is zero (0) as discussed in the comments filed by AT&T.



Steven M. Olea  
Director  
Utilities Division

SMO:WMS:sms\MAS

ORIGINATOR: Wilfred Shand

<sup>5</sup>The USF-ICC Order, *Second Order on Reconsideration*, FCC 12-47, rel. April 25, 2012, ¶ 2 and ¶35 and footnote 96.

<sup>6</sup>Id., Footnote 96, "Accordingly, our revised rules will become effective 45 days after publication in the Federal Register."

<sup>7</sup>Id., ¶ 35

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE  
Chairman

BOB STUMP  
Commissioner

SANDRA D. KENNEDY  
Commissioner

PAUL NEWMAN  
Commissioner

BRENDA BURNS  
Commissioner

IN THE MATTER OF THE APPLICATION  
OF CITIZENS UTILITIES RURAL  
COMPANY, INC. TARIFF FILING TO  
INTRODUCE IDENTIFICATION AND  
RATING OF VOIP-PSTN TRAFFIC.

DOCKET NO. T-01954B-11-0452

DECISION NO. \_\_\_\_\_

ORDER

Open Meeting  
July 18 and 19, 2012  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Citizens Utilities Rural Company, Inc. d/b/a Frontier Citizens Utilities ("Frontier Rural") is certificated to provide telecommunications service as a public service corporation in the State of Arizona.

2. On December 15, 2011, Frontier Rural filed tariff revisions to introduce its Identification and Rating of VoIP-PSTN Traffic tariff.

Access Service

Table of Contents, Sheet No. 2, 2nd Revised  
Table of Contents, Sheet No. 3, 2nd Revised  
Section 2, Sheet No. 13, 1st Revised  
Section 2, Sheet No. 13.1, Original  
Section 2, Sheet No. 13.2, Original  
Section 2, Sheet No. 14, 1st Revised

3. Voice over Internet Protocol ("VoIP") is a technology that allows a subscriber to make and receive voice calls using a broadband Internet connection instead of a phone line:

4. On May 10, 2012, Frontier Rural amended the filing to clarify the application of interstate and intrastate access rates and to clarify that the Percent VoIP Usage ("PVU") factor applies only to intrastate traffic:

Access Service

Section 2, Sheet No. 13, 1st Revised  
Section 2, Sheet No. 13.1, Original

5. On November 18, 2011, the Federal Communications Commission ("FCC") issued a Report and Order and Further Notice of Proposed Rulemaking in WC Docket Nos. 10-90, et al. (FCC 11-161) ("the USF-ICC Order") that puts in place a process that will change the current process by which carriers pay for the use of each other's facilities and network. The FCC's name for this process is "intercarrier compensation." As a result of the USF-ICC Order, carriers are filing revisions to their access tariffs to conform to the provisions of the Order. Specifically, carriers are addressing access charges imposed on VoIP-PSTN<sup>1</sup> traffic.

6. The FCC adopted the following intercarrier compensation framework for VoIP traffic, in particular, VoIP-PSTN traffic<sup>2</sup>:

*Voice over Internet Protocol (VoIP):* The intercarrier compensation treatment of VoIP traffic that is exchanged between LECs and other carriers has been the subject of long-running disputes. This plan does not take a position on the appropriate intercarrier compensation treatment of VoIP traffic prior to January 1, 2012. Under the plan, the Commission will adopt a new rule, effective January 1, 2012, to govern the intercarrier compensation rates applicable to VoIP traffic exchanged between LECs and other carriers. Such traffic will be rated at interstate access rates if the call detail indicates an "access" call, or at reciprocal compensation rates if the call detail indicates a "non-access" call. *All "toll" traffic that originates in IP or terminates in IP will be subject to current interstate access rates (regardless of whether it is interstate or intrastate) (Italics and underlining added.);* local termination rates would not be affected. All such traffic is incorporated into the overall transition as rates for terminating interstate access traffic are reduced and eventually unified at \$0.0007 pursuant to the comprehensive reform plan described below. *Under the plan, intrastate access rates will not be applied to VoIP traffic. (Italics added.)*

<sup>1</sup> VoIP-PSTN traffic is intrastate VoIP calling that utilizes the Public Switched Telephone Network.

<sup>2</sup> The USF-ICC Order at para. 933, footnote 1869.

7. The USF-ICC Order also makes clear that on a going-forward basis payment obligations apply to VoIP traffic and adopts a transitional intercarrier compensation framework for VoIP.<sup>3</sup> Under the transitional framework<sup>4</sup>:

- Default charges for “toll” VoIP-PSTN traffic will be equal to interstate access rates applicable to non-VoIP traffic, both in terms of the rate level and rate structure;
- Default charges for other VoIP-PSTN traffic will be the otherwise-applicable reciprocal compensation rates; (footnote omitted); and
- LECs are permitted to tariff these default charges for toll VoIP-PSTN traffic in relevant federal and state tariffs in the absence of an agreement for different intercarrier compensation.

8. Based on the above language and Staff’s interpretation of the USF-ICC Order, Staff believes that interstate access rates are applicable to both originating and terminating VoIP-PSTN traffic.

9. Frontier Communications Corp. (“Frontier”), the parent of Frontier Rural, filed a Petition for Clarification and/or Reconsideration (“Petition”) at the FCC to clarify, or reconsider its decision to state that initially the interstate access charges for VoIP-PSTN calls will apply only for the termination of such calls and intrastate charges will apply for the origination of such calls.

10. On January 31, 2012, Verizon filed objections to Frontier Rural’s proposed tariff revisions. Verizon requests that the Commission require Frontier Rural to revise and refile its proposed tariffs to reflect application of interstate switched access rates to all PSTN-VoIP traffic, including PSTN-originating/VoIP-terminating traffic.

11. On March 21, 2012, AT&T Services, Inc. (“AT&T”) filed objections to Frontier Rural’s proposed tariff revisions. AT&T requests that the Commission require Frontier Rural to amend the proposed tariff to apply interstate rates to both IP-originating and IP-terminating traffic (including traffic that originates or terminates in the company’s own network IP format), calculate the PVU factor based solely on intrastate minutes of use, and to apply the rates retroactively to December 29, 2011.

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<sup>3</sup> The USF-ICC Order at para. 652.

<sup>4</sup> The USF-ICC Order at para. 944.

12. On April 24, 2012, the FCC issued an Order<sup>5</sup> addressing Frontier's petition, stating "it would permit LECs to tariff default rates equal to their intrastate originating access rates when they originate VoIP traffic from the effective date<sup>6</sup> of the revised rules until June 30, 2014. On July 1, 2014, LECs will be permitted to tariff default rates for such traffic equal to their interstate originating access rates."<sup>7</sup>

13. During its review of numerous proposed tariff revisions to implement the FCC's decision as it relates to VoIP-PSTN calls, Staff was informed by AT&T and others that they believed that because the FCC's Order regarding these calls became effective on December 29, 2011, the new rates should apply to traffic beginning on that date and that there should be a rate adjustment. The Commission's tariff approval procedures apply meaning the tariffs become effective only after Commission approval.

14. Staff has reviewed the proposed tariff revisions, the relevant FCC Orders and the comments that have been filed in the Docket. Staff recommends approval of Frontier Rural's proposed tariff revisions, as amended, with the requirement that Frontier Rural revise its proposed tariff to include a mechanism to address VoIP-PSTN traffic that its customers originate or terminate in IP format, even if that traffic is zero (0) as discussed in the comments filed by AT&T.

#### CONCLUSIONS OF LAW

1. Citizens Utilities Rural Company, Inc. d/b/a Frontier Citizens Utilities is a public service corporation within the meaning of Article XV of the Arizona Constitution.

2. The Commission has jurisdiction over Citizens Utilities Rural Company, Inc. d/b/a Frontier Citizens Utilities and the subject matter in this filing.

3. The Commission, having reviewed the filing and Staff's Memorandum dated July 2, 2012, concludes that approval of the proposed tariff revisions, as amended with the conditions recommended by Staff, is reasonable, fair and equitable and therefore in the public interest.

<sup>5</sup>The USF-ICC Order, *Second Order on Reconsideration*, FCC 12-47, rel. April 25, 2012, ¶ 2 and ¶35 and footnote 96.

<sup>6</sup> Id., Footnote 96, "Accordingly, our revised rules will become effective 45 days after publication in the Federal Register."

<sup>7</sup> Id., ¶ 35

ORDER

IT IS THEREFORE ORDERED that the Citizens Utilities Rural Company, Inc. proposed tariff revisions, as amended, with the requirement that Citizens Utilities Rural Company, Inc. d/b/a Frontier Citizens Utilities revise its proposed tariff to include a mechanism to address VoIP-PSTN traffic that its customers originate or terminate in IP format, even if that traffic is zero (0) be and hereby are approved, as discussed herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
Executive Director of the Arizona Corporation Commission,  
have hereunto, set my hand and caused the official seal of  
this Commission to be affixed at the Capitol, in the City of  
Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

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ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:WMS:sms/MAS



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